



PHILIP MORRIS U.S.A.

Inter Office Correspondence

TO: B. Mikulay

DATE: November 7, 1996

FROM: Margaret Yates MU

SUBJECT: Competitive Direct Mail

According to your request, attached is an answer to the question you posed to Jim at the Arrowood meeting; "Is our competitive intelligence art or science?"

As you will see from the attached, we're in an early stage of development, currently more 'art' than 'science.' Our methodology is not based on a statistically significant sample of decoy/seed names on competitors' databases, although we're exploring this possibility. Also, the system does not yet include seeds outside of metro New York and Chicago. (We plan to improve geographical representation in 1997.)

However, this year we did begin to build a new tracking system and increased the number of decoy/seeds fourfold from 62 to 240 smoker names. Hence, in July we presented a Direct Mail Competitive Review to Brand that analyzed and interpreted both offensive and defensive strategies. The presentation was well received and timely in preparation of the planning season.

Background:

PM has had tertiary direct mail competitive tracking since 1992, with annual creative presentations to Brand. Feedback from the November 95 session was that Brand wanted to know more about key competitor strategies: offensive/defensive and responder/non-responder.

In 3/96 we began to integrate smoker seeds from all sources (LBco, R&M and John Cummings) into a central clearinghouse, and organize the data into a systematic 'grid' structure to allow us to track and analyze 1996 direct mail activity by individual smoker name to infer strategy. Initial focus was on Tier 1.
Tier 1 (Camel, Winston, Doral & Salem).
Tier 2 (GPC, Misty, Kool, Newport)
Tier 3 (Capri, Vantage, Now Moonlight)

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Benefits of the new system:

- The proprietary tracking method we've developed addresses many of the challenges and complexities of monitoring competitive direct mail.
- We've begun to provide coherent information about continuous activity rather than just creative mail samples without context or history.
- Careful and continual monitoring alerts Brand to customized programs aimed at present and potential consumers.
- Ongoing, active adding of smoker seeds ensures a dynamic flow of mail, and ability to note changes in competitor's offensive/defensive strategy and mix.

To illustrate how the data is organized I've attached a grid that outlines 147 seeds across the 4 key RJR brands in tier 1, and direct mail received in 1996.

1997 Planning:

As the new tracking system evolves there are 2 areas we will focus on next year:

1. Enhancements:

- Geography - work with partners to increase smoker seed penetration to include all 5 regions.
- Continuous improvement of seed program - maintain and build seeds and ensure B&W brands are well represented.

2. New Direction:

- We are investigating expansion of competitive direct mail tracking into a statistically significant collection panel.

B&W Multibrand 10/96 -- update:

We're monitoring the new 4Q wave of B&W activity daily. Since 10/14 we've received 19 packages; 18 are different brand configurations of the initial mailing and include 5 or 6 of the following (Carlton, Capri, Kool, Misty, Pall Mall, Raleigh, Tareyton, Viceroy); 1 is a menthol-only version (Belair, Carlton, Capri, GPC, Kool & Misty). While it's clear B&W are testing, no pattern's emerged on their strategy yet.

Please let us know if you have any questions. We'd be glad to set up a meeting to share additional information, and obtain your comments on the value of the information currently being received.

cc:

M. Mahan

J. Vander Putten

J. Eibon

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